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A CENTRAL BANK OF ISSUE

BY CHARLES A. CONANT, VICTOR A. MORAWETZ AND SENATOR W. A. PEFFER.

THE EVOLUTION OF CENTRAL BANKING.

ONE of the strongest arguments in favor of a central bank is the fact that practically every commercial country but the United States has arrived by a process of evolution at the central banking system. There is not to-day an independent nation in Europe which has not a central bank controlling the note-issuing and exchange situation, most of them established within sixty years and several of them within ten years. Differences of race, of forms of government and even in degrees of economic development, may have retarded, but they have not prevented this evolution. The argument has been heard in this country that while central banks may be suited to monarchies, they are not adapted to republics. Such reasoning ignores the example of France, whose republican government in 1897 renewed the charter of the Bank of France for twenty-three years. It ignores the more recent case of the hardy little republic of Switzerland, whose central bank was opened for business in June, 1907, and bravely carried the country through the panic of the autumn. To the objection that the United States is too

great territorially for a central bank with the necessary branches, is opposed the example of Russia, whose central bank holds the second largest gold reserve in the world and ministers to the needs of 150,000,000 people scattered over two continents.

If "history is philosophy teaching by example," then the history of banking teaches that financial progress depends in large measure on the existence of a central monetary institution, dowered by law with the power to use its credit without any limits, except those imposed by sound banking policy, for the protection of the national gold stock and national financial security. The only conspicuous instance of the failure of a central bank,—the second Bank of the United States,—antedates banking experience under modern conditions. If its failure is an argument against central banks, then the still worse failure of nearly all the local and isolated banks of that time is an argument against local and isolated banking. The science of banking was then in swaddling-clothes, and analogies based upon those conditions are as misleading as analogies in regard to the moving of freight to market based upon the speed and efficiency of the stage-coach and the ox-cart.

The Bank of England and the Bank of France are practically the only central banks in Europe which date back more than a century. The Bank of England is 215 years old; the Bank of France is 109 years old. All the other central banks, as at present organized, were formed after 1849 and many of them since 1875. The old Bank of Prussia dated back to 1765, but its business was not organized upon modern methods until much later, and only by the law of 1875 did it acquire the position of the dominant bank of the German Empire. The Austro-Hungarian Bank dates back to the time of Napoleon, but for many years was little more than a machine for the issue of irredeemable money to meet the needs of an embarrassed government. It was not until 1878 that the National Bank of Austria was expanded into the Austro-Hungarian Bank under a modern charter.

The National Bank of Belgium, whose charter became in 1882 the model for the Bank of Japan, was established only in 1850. The Bank of The Netherlands also, while organized in 1814, was reorganized on the model of the Bank of Belgium in 1864. Italy had a number of banks of issue up to the panic

of 1893, when they were reduced to three,—the Bank of Italy, the Bank of Naples and the Bank of Sicily, each practically supreme within its own territory. Spain unified her note-issuing system only in 1874, when 18 local banks were ordered to liquidate their circulation and transfer it to the Bank of Spain. Portugal granted monopoly of note issue to her central bank only in 1888. In the three Balkan States which were liberated from Turkey in 1877 central banks were established between 1880 and 1885. Sweden continued the system of local banks until 1897, when provision was made for transferring their circulation to the Royal Bank before the close of 1905. Switzerland also, finding exchange almost uniformly adverse under the system of some 30 local banks, was finally driven, after a discussion of nearly twenty years, to the creation of a central bank, which began operations in the summer of 1907.

The reason for the evolution of the central bank is the reason for the evolution of other forms of concentration in modern society. It applies to finance the system of larger units and greater economy which has been applied long since in the world of government, railway systems and manufacturing. Guerilla warfare,—fighting with small units,—was adapted to the infancy of civilization; it is the heavy battalions and the massed resources which decide modern contests,—both on the field of battle and in the field of finance.

One of the best examples of this was the comparative conditions in Europe and America in the panic of 1907. The total amount of gold in the United States on July 1, 1907, was $1,466,389,101; that reported for France was $926,400,000. The national banks of the United States alone held on August 22, 1907, reserves in lawful money amounting to $701,600,000, and the Bank of France had practically no more. But in the United States each little local bank began strengthening its position, as if it was a small battalion in a beleaguered fortress instead of a part of the great army of modern finance. The result was that gold and notes were piled up uselessly in many a country town, while the banks of the great cities struggled by every possible device,—through the importation of gold, the hastening of merchandise shipments abroad, and the issue of clearing-house certificates,—to keep their reserves somewhere near the requirements of law. The monetary system broke down, and the

banks of the United States, in a time of peace and abounding prosperity, suspended currency payments, because the metallic reserve of the country was so hopelessly subdivided as to be useless.

To the cry of distress which went over the sea from our isolated banking units, beaten as they were in detail, Europe responded by the generous tender of her gold. The United Kingdom, with little more than a third of our stock,—reported at $564,500,000 at the close of 1907, of which only $162,000,000 was visible in banks,—joined France with her larger stock in sending to distressed America within two months more than $100,000,000 of the yellow metal. The Bank of England, with its somewhat restricted reserves, which rarely rise above $150,-000,000 and often fall close to $100,000,000, was in the position then, as it has always been in recent times, to summon the gold of the world by its concentrated power over the exchanges. The Bank of France, with total legal reserves less than those of American banks, nevertheless stood erect midst the storm with the concentrated power of a fleet of battleships surrounded by Indian canoes or Japanese sampans.

The American principle of isolated note-issuing banks has been tried, through admiration for America, in at least three countries, with disastrous results. One of these countries was Japan, influenced by touching faith in those early days that whatever was done in America must be right. Local banks of issue under the name of national banks were authorized by a law of 1872. The banks were required to purchase national stocks as the basis of their circulating notes. The notes came back so rapidly for redemption, however, that the banks were authorized in 1876 to redeem them in government paper money, which fell the next year nearly 50 per cent. below par and left the Japanese imitation of our national banking system only an unsightly mass of wreckage. The Bank of Japan was created in 1882 with a capital of $5,000,000 (since increased to $15,000,000), and began the laborious work of clearing away the débris of the national banking system and substituting the policy of a unified note circulation and a central banking control. With the help of the new bank Japan passed successfully through her struggle with Russia without the suspension of gold payments, only two years before the national banks of the United States suspended under the ægis of world-wide peace.

The Argentine Republic also, stimulated by admiration for the great republic of the north, tried in 1887 the American system of depositing government bonds as a basis for note circulation. Bad banking and excessive issues destroyed the system within four years. Gold went to a premium of 300 per cent., and every bank of issue suspended in 1891 and went into liquidation. In Mexico the Code of Commerce of 1884 authorized the employment of government bonds as the basis of note issues, but the system soon went to wreck and was superseded by one based upon the predominant influence of the National Bank of Mexico and the specific and definite repudiation by the Minister of Finance of the policy of linking note issues to the credit of the government.*

The three apparent exceptions at the present time to the system of a central bank of issue among commercial nations are Scotland, Canada and Mexico. Critically examined, however, it becomes apparent that in each of these countries reliance is placed by the independent banks upon one institution which, without the direct sanction of law, nevertheless fulfils practically the functions of a central bank. Two of these countries, it may be remarked, are only parts of an empire and are not sovereign. In the case of Scotland, all the banks of issue lean in time of stress upon the Bank of England and import gold from London. They have agencies in London, and it has recently been proposed that when they encounter an unusual need for gold, it may be met by transferring the gold temporarily to their agenices in London, to strengthen their visible reserves, without shipping it down to Edinburgh and other Scotch cities.

In Canada the operations of the note-issuing banks, which number only thirty, centre around the Bank of Montreal, which possesses about one-fifth of the assets of the entire Canadian banking system. In Mexico the reforms of 1897, which put an end to the loose system of 1884, permitted the creation of a single bank of issue in each state, but these state banks lean largely upon the National Bank of Mexico, which possesses 40 per cent. of the assets of banks of issue, and have also entered into relations with the Banco Central, which affords them the benefits of quick redemption of their notes, the clearing of obligations, and mutual support in time of stress. It was a signifi-

* See the author's "History of Modern Banks of Issue," pp. 481–483.

cant fact that in the pressure of 1907-08, while the issues of the state banks were contracting by $5,000,000, those of the National Bank of Mexico were increasing by a nearly equal amount.

Thus, in all these cases, it appears that there is in fact, though not in law, a system of central banking, only modified by the circumstance that moderate issues of notes are permitted to other banks. Moreover, in these cases of apparent exception to the general rule, the countries concerned, while large factors in the commerce of the world, are not a part of the mechanism of international finance to the extent of London, Paris, Berlin or New York. In the hands of the bankers of the first of these three great centres lies the distribution of surplus capital to new and developing nations. If New York would become a serious competitor with them as a centre of exchanges, for her share in this process of distribution, it is absolutely essential that she also should possess a financial mechanism cohesive, flexible and concentrated, capable of handling without risk the largest affairs, guarding the gold stock of the country, and guaranteeing by its strength the soundness of the monetary system.

CHARLES A. CONANT.

THE CENTRAL BANK PLAN.

UNDER our existing system of independent local banks we have prospered beyond all other nations. Therefore, this system cannot be wholly bad. But periodically the country has suffered from severe money stringencies which sometimes have resulted in panics and wide-spread disaster. We need a banking system that *always* will be safe and that *always* will serve the needs of industry and commerce. Foreign countries have such safe and serviceable systems. Can we not have such a system in the United States?

General money stringencies and wide-spread financial troubles in the United States have not been caused by the mismanagement of individual banks or trust companies. In the main the management of our banks and trust companies has compared favorably with that of similar institutions in other countries. Important bank failures have occurred in England, Germany and France as well as in the United States. No system can make bank-managers honest and prudent or guard against the penalties of

dishonesty and imprudence. But under a safe system the failure of an individual bank will not result in a general money stringency, as sometimes has been the case in the United States. If the banks generally have not expanded their deposit liabilities beyond the limit of safety, borrowers who are refused accommodation by a particular bank, as a rule, can obtain credit from some other bank; and a bank which has good assets can strengthen its reserves in case of need by selling some of its assets or by diminishing its outstanding loans. But when practically all the banks have expanded their deposit liabilities to the limit of safety, shifting loans from one bank to another bank, or strengthening the reserves of some banks by drawing upon the reserves of other banks is of no avail, for then no bank can strengthen itself without pulling down some other bank.

In the United States there is no way of regulating or controlling the expansion of bank credits in the aggregate, and there is no way of securing the adoption of a common policy by all the banks and trust companies when this is necessary for the security of the general credit situation. Each of the twenty-five thousand independent banks and trust companies in the United States carries on business for its individual interest alone, independently of the others, and each at all times seeks to lend its credit to the limit permitted by law as long as it can make a profit by doing so. The result is that bank credits are expanded, speculation is encouraged and business operations are extended to the utmost limit in normal times, while no provision is made for those times when an exceptional amount of currency is withdrawn from the bank reserves for use in circulation or when there is a demand for an exceptional amount of bank credit. The rope of credit, having been stretched in normal times to the limit of its strength, breaks when an additional strain is put upon it.

Some way must be found to hold in check the aggregate expansion of bank credits in normal times so that a sufficient amount of reserve money and of credit power shall be held back and kept available for use in times when an exceptional amount of currency or of bank credit is needed. In every country of Europe the machinery for securing the necessary regulation and control of the expansion of bank credits in the aggregate and for keeping available an adequate amount of reserve money and of

credit power has been provided by establishing a central bank which is deemed to be charged with the responsibility and duty of protecting financial conditions throughout the country. The necessary power is vested in the central bank (1) by making it the common depositary of a large part of the reserves of the other banks; (2) by making it the sole depositary of Government moneys; and (3) by conferring upon it a monopoly of the right to issue circulating notes.

The required regulation is effected by one or both of the following methods: (1) by acting as a bank for the discount and rediscount of commercial paper and by raising or lowering its discount rate, the central bank to a certain extent regulates interest rates and the expansion of credits and influences the flow of gold to or from the country; (2) by issuing its notes, which serve as circulating currency in lieu of gold, the central bank prevents the withdrawal of gold from the bank reserves for use as circulating currency, with the consequent reduction of credit power; and by diminishing the volume of the outstanding notes it checks over-expansion of bank credits and the export of gold when this should be prevented. The central banks of Germany and France use both of these methods of regulating banking conditions in their respective countries. The Bank of England uses only the first method, namely, by changing its interest and discount rate; but this method alone has not proved always adequate in England and certainly would not prove adequate in the United States.

There are eminent bankers who hold that we should establish in the United States a great central bank vested with powers similar to those exercised by foreign central banks. Undoubtedly the central banks in European countries effectively and satisfactorily regulate and control banking conditions in those countries; and if conditions in the United States were similar to conditions in European countries the argument in favor of establishing such a bank in the United States would be conclusive. However, conditions in the United States are so different from those existing in European countries that the central banks of Europe cannot fairly be considered precedents for the creation of a similar bank in the United States.

In Europe each country has established its own central bank, but no one country of Europe can be compared with the whole

of the United States. The territorial expanse of the United States is as great as that of all the countries of Europe combined. Control of the business interests and financial resources of the United States is not centralized, and cannot be centralized, to the same extent as control of the business interests and financial resources of a single country of Europe. The different sections of the United States have developed rapidly in wealth and in financial independence, and there exists a strong and growing feeling of opposition to the concentration of financial strength in few hands or in any section of the country.

In order to establish in the United States a central bank on the European plan, it would be necessary to concentrate vast resources in this bank and to constitute it the reserve depositary of the banks throughout the country. It would be necessary also to take away from the existing national banks their power to issue notes and to give a monopoly of this power to the central bank. To allow such a bank to be organized like an ordinary corporation, with transferable shares and an elective board of directors, so that a few rich men might purchase control, certainly would not prove satisfactory. To vest in the Government the power to appoint the managers of the bank, or to control its operations, might make the management and policy of the bank depend upon the result of popular elections and might constitute control of the bank a political prize, to be disposed of by the party in power. To provide that some of the directors of the bank shall be elected by its shareholders or by the other banks, and that some of them shall be appointed by the Government, probably would suit no one and certainly would not prove effective. A great bank must have a consistent policy and an executive head who can carry out this policy. By the creation of a composite board of directors diverse interests cannot be fused so as to produce a harmonious and satisfactory result. Ultimately full control would pass to such of the different interests represented on the board as might happen to unite so as to form a majority. Under any plan the business management of the bank would be controlled in great measure by its president or chief executive officer. As New York is the chief financial centre of the country the principal sphere of activity of the bank necessarily would be in New York even if the principal office of the bank should be located elsewhere.

Such concentration of financial power surely would result in sectional jealousies and dissensions.

The central banks of Europe were developed gradually, and became useful institutions because they were in harmony with the social conditions, the business habits and the political methods of the countries in which they were established. The Bank of England is a private stock company whose directors are chosen from among the merchants of London, but the management of the bank is governed by long-established customs and traditions which have acquired practically the force of common law. In France and Germany the directors or head managers of the bank are appointed by the Government, but in these countries also the management of the bank is governed by long-established customs and traditions. In European countries there exists the utmost confidence in the wisdom, the impartiality and the disinterestedness of those who have charge of the management of their central banks, and in no country of Europe are banking and currency problems deemed fit subjects for party politics. Though a central bank in the United States might be created by an Act of Congress, no Act of Congress could create the conditions, the customs and the traditions which in foreign countries have made central banks safe and serviceable institutions.

Almost from the beginning of our Government banking and currency questions have been treated as political questions. The first Bank of the United States was chartered by Congress in 1791 under Washington's administration. The bank became a football of politics, and when its charter expired the bank was destroyed. The second Bank of the United States was chartered in 1816, and the management of this bank also became an issue in party politics. When its charter was about to expire in 1836, the proposal to renew the charter resulted in one of the most bitter political controversies in the history of our country and was made the leading issue of a Presidential campaign. The party that favored the bank was defeated at the polls and the bank was destroyed.

No doubt business conditions have changed since the days when Jackson, Taney, Webster and Clay fought over the Bank of the United States; but have our political methods changed, and do we now exclude financial questions from our party politics? After the war the greenback question was treated as a political

question, and the issue of irredeemable fiat money was approved by popular vote in a number of the States. A long and bitter political fight was waged in favor of the proposal to pay our Government bonds in irredeemable paper currency. For twenty-five years the silver question was treated as a question of party politics, and twice the free coinage of silver became the dominant issue of a Presidential campaign. In our last Presidential campaign the principal issue advanced by one of the candidates was the compulsory guarantee of bank deposits. In each of these cases far-reaching financial policies were included in political platforms to be submitted to popular vote in the heat of a Presidential campaign. On several occasions the country was saved from the wildest financial heresies and from financial chaos, if not dishonor, by only a small majority of popular votes.

Having regard to our political history and to the political conditions which we know to exist, is it reasonable to suppose that the management and policy of a great central bank could be kept out of politics? If, after the creation of such a bank, it should become the cause of sectional differences and dissensions, and if its management, or perhaps its very existence, should become a political issue, the bank, instead of rendering financial conditions safer and more stable, would make them far more perilous than they are to-day. And if in the end the bank should fail to accomplish its purpose and should be dissolved, like the former Banks of the United States, probably it would pull down with it the political party that was responsible for its existence. No one can foresee what financial heresies then might prevail, but true reform of our banking and currency system surely would be postponed for a generation.

The main purpose of a central bank is to secure the safety and stability of financial conditions throughout the country. Cannot the desired result be attained in the United States without a great central bank by adopting in modified form such features of the central-bank system as are suited to practical conditions in the United States?

Though it would not be desirable or practicable to concentrate the reserves of all the banks in a single central bank, concentration of part of the reserves of the banks in the several sections of the country is both desirable and practicable. In order to effect such concentration of reserves so far as practicable and

desirable, the national banks in the several sections of the country should be authorized to unite in forming sectional reserve banks, to be controlled by them through stock ownership, each bank depositing part of its reserves in the sectional reserve bank of which it is a member. The sectional reserve banks, of course, should be required to keep ample reserves of lawful money and should engage only in the safest kind of business, so that at all times they would be in a position to furnish reserve money to the several banks by paying checks drawn upon their deposit accounts or by rediscounting their paper. The several sectional reserve banks also should make arrangements among themselves to facilitate exchanges between the different sections of the country.

For the purpose of establishing the necessary central regulation and control of the aggregate expansion of bank credits in relation to the aggregate bank reserves, the national banks, or the sectional reserve banks formed by them, should be authorized to form a note-issue association and to elect a central board or committee having power from time to time, with the consent of the Secretary of the Treasury, to increase or reduce according to the needs of changing conditions the volume of uncovered bank-note currency which the banks throughout the country may have outstanding, such increase or reduction being effected by increasing or reducing the percentage of their notes which the several banks must keep on deposit in lawful money in note-redemption funds to be held by the note-issue association or by the Comptroller of the Currency. By increasing the required percentage of the note-redemption funds the expansion of bank credits in the aggregate could be checked. By reducing the required percentage the banks would be enabled to meet a demand for more circulating currency without drawing upon their reserves against deposit liabilities.

VICTOR MORAWETZ.

GOVERNMENT BANKING.

IN his address at Boston, September 14th, the President, referring to the work of the Monetary Commission, informed the country that the trend of opinion among the members of that body is favorable to the establishment of a "central bank of issue"; and that foreshadows a discussion of the question whether

this central bank shall be conducted under public or under private management. The President openly favors Government savings-banks, and the principle involved there is the same as that in the proposition for a Government bank of issue.

The proposed change must move on one or other of two lines—public or private interests. Men who have been long engaged in the loaning business and have grown rich on profits in interest moneys received will naturally favor private banking. But where there is one banker there are one thousand borrowers whose individual rights and interests are equally deserving of care and attention on the part of the governing power.

In the establishment of the gold standard it was generally understood by friends of that measure that the money question was settled; and perhaps, in so far as the metallic side of that question is concerned, it is settled; but in our case at this time there is another and much broader side to the money question, and that is the *paper* side. Nobody wants metallic money when paper is to be had. And the only paper money the people will use is that made by the national Government. The American people will never again tolerate State bank paper. Nothing in the paper money line in this country was ever so popular as the Greenbacks, and the reason is that the Government was behind it. Our national-bank currency has the same backing: but our experience with the banks' handling of it has not been satisfactory. While the paper is guaranteed by the Government, the amount of circulation is regulated by the bankers, who are private citizens in the business for personal profit and not for the public good. That, however, is not at all unreasonable, and it is lawful as well as natural. But when a shortage in currency appears and a rush for more currency is on, the Treasury Department is always called to the rescue. One result of the latest panic was an act of Congress providing for an "emergency currency" amounting to $500,000,000, for the printing of which a corps of Government engravers was employed ten months preparing plates for the new issue. Doubtless these facts have had much to do with bringing forward the suggestion of a Central Bank of issue under direct supervision of the same power that stands behind the banks and provides for the necessary relief in panicky times, which the banks have not, thus far, been prepared to do.

The Government now prints all the national bank-notes and the

other paper currency in use, by its own employees, on its own machinery in its own buildings, and is now enlarging the quarters of the Bureau of Engraving and Printing so as to be able to do more work in less time.

The average number of employees in the Bureau of Engraving and Printing for the fiscal year 1908 was 3,578. The paper to be used in printing United States paper money and national bank-notes for the current fiscal year has been estimated at about 74,000,000 sheets, weighing 888,000 pounds, at a cost of $368,520.

The banks now paying the cost of printing their own notes, the only additional expense to be incurred by the Government for doing the same kind of work under the proposed change to a central bank and its branches, would come from the additional amount of printing; and facilities for doing this sort of work will be much better when the new building is completed.

But by far the greatest benefits to flow from the change to a central Government bank of issue could be made to consist in reducing rates of interest and making them uniform throughout the country.

Congress has no authority to meddle with interest in the States. That is a State affair. But the general Government may establish branch banks in any part of the country and loan its own money to the people at its own rate of interest as was done by the United States Bank and its branches from 1791 to 1811 and again from 1816 to 1836.

The amount of money loaned and the interest paid or to be paid thereon in our country for any long period has never been published. But from what has been reported, we can see that a grand total for a single year would go beyond our capacity to comprehend. Take one instance as an illustration:

On the fourth day of September, 1906, our national banks—6,137 in number—reported the amount of their loans and discounts for that day alone to foot up $4,298,983,316 (cents omitted).

That sum is nearly twice as much as our public debt in 1870, which was $2,331,169,956. It is more than one and a half times as much as the combined expenditures of our national Government during the six years—1902, 1903, 1904, 1905 1906, 1907, the total amounting to $2,945,296,779.

If that day's work netted only one per cent. the figures would

show $42,989,833. Twenty such days' work would have paid the net ordinary expenses of the Government for any one year since 1865.

If national banks were the only money-loaning institutions in the country relations between lender and borrower might not seem so hard, but on the same day that the national bank transactions aforesaid took place there were in operation 11,852 State banks whose aggregate resources amounted to $10,363,350,846; also 8,862 commercial banks, 742 loan and trust companies, 1,319 savings-banks and 929 private banks and bankers—a total of 23,704 banking institutions besides the 6,137 national banks. (See Report of Comptroller of the Currency for the year 1906.)

If the difference between what is a fair and reasonable rate of interest and what is actually paid by the borrowing public were paid into the public treasury as public funds, taxation would be abolished and the tariff question would cease from troubling. It would more than pay all necessary expenses of the national Government from year to year.

One per cent. in a loaning establishment doing a large business will pay all necessary running expenses — rent, taxes, wages, stationery, postage, etc., leaving balance of the income as profits.

From time whereof the memory of man runneth not to the contrary, money-changers have dictated and maintained the rates of interest; and not until the great body of the people take hold of the subject will the borrowing public be fairly dealt with in this matter.

An eminent banker not many years ago wrote, "Wall Street moves the money which controls the affairs of the world."

A fair rate of interest is three per cent. That is what bankers themselves pay when they are borrowers. They advertise for deposits at that rate. A few months ago in Kansas twenty-nine State banks and thirty-eight national banks were designated as State depositaries, the interest rate being three per cent. Seven of the national banks bid over three per cent. One State bank was awarded eighty thousand dollars at three.

Recurring to the day's work of the national banks, September 4th, 1906, amounting to $4,298,983,316. Three per cent. on that amount gives us $128,969,499 as income for one day, and six such days would have paid all the disbursements of the general Government for the whole year 1906.

Objections to Federal control of the Central Bank would be equally applicable to the Post-Office Department which carries mail to the doors of city residents and to farmhouses in rural districts.

The Post-Office Department also forwards letters and parcels and postal money-orders to all parts of the civilized world. For the year 1906 the amount, in value, of domestic money-orders issued was $444,515,790; and the amount of international money-orders issued same year was $63,047,868.

It is objected that on general principles the national Government ought not to mix in banking affairs. How can it be avoided unless we go back to the old "shinplaster"?

In the very beginning of our national career (1791), a *United States Bank* was established at Philadelphia, with branches at different points. It soon went into operation with a capital of $10,000,000, of which amount the Government subscribed $2,000,-000 in specie and $6,000,000 in stocks of the United States. The measure was very popular. The shares of the bank rose to twenty-five and forty-five per cent. premium, and it paid an average dividend of eight and a half per cent. on its capital.

The popularity of the bank created a bank fever resulting in establishment of local institutions more than business required, and at the close of the war in 1815 most of them had suspended specie payments and there was a general demand for another United States Bank. One was chartered (April 3rd, 1816) for twenty years, with a capital of $35,000,000, the United States subscribing $7,000,000; and the second bank was quite as useful as the first.

More than ninety per cent. of our business now is handled with paper money. There is not coin enough in the country to supply the demand for thirty minutes, when one day's business of one-fourth of our loan agencies puts out four billion dollars during the business hours of a single day.

We must have paper currency in amounts that no institution other than the United States can supply.

Coming closer to the subject, we find our Government now immersed deeply in the banking business. Upward of six thousand banks in operation loaning paper money by the billion daily, every single piece of which is made by Government employees with Government machinery in Government buildings. And this

has been going on many years. A tax is levied on bank circulation, and Congress makes an appropriation for the work based on the estimates submitted by the Director of the Bureau of Engraving and Printing.

Now let the Government do the rest of the work—the loaning of its own money by and through its own agents and appointees. Let the national banks now in business expire by limitation of law, their places to be supplied, whenever needed, by branch banks. There are now a great many national banks more than are required to handle the business they do. A city of forty to fifty thousand population gets only one post-office, and one Government bank could as easily accommodate that many people. Let the Treasury of the United States be the Central Bank, as it was in the years of our great war; and let the Treasurer be in charge as he was when ten dollars passed through his hands to one now.

Let the Central Bank loan to the people at three per cent. as bankers now lend to them at five, six and more: one per cent. of the income would pay all running expenses of the work, and two per cent. going into the national treasury would more than pay all necessary requirements of the national Government.

WILLIAM ALFRED PEFFER.